

Privatizing Housing Management and Reducing Subsidies

Kazakstan

Background

Kazakstan, like many other Republics of the former Soviet Union, moved quickly to transfer ownership of apartments in multi-family buildings from the government to private individuals. While privatization of apartments proceeded relatively quickly, local governments retained responsibility for managing and maintaining Kazakstan's dilapidated housing stock. The burden of providing maintenance and utility services threatened to render many local governments insolvent. According to some estimates, housing-related subsidies prior to reforms adopted in 1996 accounted for more than 50 percent of local government budgets. These massive subsidies continued to grow because of increasing utility costs and extremely low utility prices (estimated at 25-30 percent of real costs at the beginning of 1996), among other factors. To relieve the growing burden on local governments, the government of Kazakstan decided to reform the systems of housing maintenance, utility pricing, and housing subsidies.

Innovation

In 1996, the national government of Kazakstan adopted a series of inter-related resolutions aimed at raising utility rates to cover real costs; providing subsidies to the neediest families; and encouraging the formation of private homeowner associations to assume responsibility for management of privatized apartment buildings. The first resolution, #647, "On Measures to Develop Consumer Cooperatives of Owners of Apartments and Nonresidential Premises in Residential Buildings," was adopted in May 1996. This resolution fostered the development of private homeowner associations (cooperatives and condominiums) to take over the ownership and management of housing property. Resolution #647 did not provide detailed national guidelines but rather relied heavily on local governments to develop and implement programs that would stimulate the formation of such associations. The national government followed Resolution #647 with Resolution #437, "Concerning Transition to New Principles of Payment for Maintenance and Housing Utility Services," and Resolution #587, "Concerning the De-Monopolization of Housing Utilities and Calculations of Prices for Utility Services." Resolutions #437 and #587 mandated an aggressive policy whereby local governments were to raise prices for most utilities to full market costs within six months, demonopolize communal maintenance and create competitive maintenance organizations, and put in place housing allowance programs to provide subsidies targeted to lower-income families who would be unable to pay market utility prices. The national government gave local governments considerable leeway to create local allowance programs that would achieve the national subsidy reduction and housing allowance policies while taking into account local differences and capabilities.

Results

It is estimated that more than 2,500 housing associations now exist in Kazakstan, representing approximately half of the residential buildings nationwide. While these new associations have encountered a variety of challenges, they have begun to provide a mechanism for private apartment owners to make decisions about management and maintenance of their buildings. Prices for most utilities have been brought to full market costs. There are an estimated 56 housing allowance programs in operation nationally, dispensing benefits to approximately 50,000 lower-income families. While the combined impact of the subsidy reduction and allowance programs is difficult to calculate at this time, in some cities the reduction in local government subsidies will amount to 50 percent or more of local budgets, freeing badly needed resources for other uses.

Summary

To relieve the growing burden of housing-related subsidies on local governments, the government of Kazakstan adopted a series of inter-related resolutions aimed at raising utility rates to cover real costs, providing subsidies to the neediest families, and encouraging the formation of private homeowner associations to assume responsibility for housing management. In some cities the resulting reduction in local government subsidies will amount to 50 percent or more of local budgets, freeing badly needed resources for other uses.

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